

Message Text

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ACTION EA-12

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EB-08 FRB-03 INR-10 NSAE-00 ICA-11 XMB-02 OPIC-03
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07
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INFO AMCONSUL HONG KONG

AMEMBASSY TAIPEI

AMEMBASSY TOKYO

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 1086

E.O. 11652: GDS

TAGS: ECON CH

SUBJ: FIRST QUARTER INDUSTRIAL PERFORMANCE: COMMENTS

1. SUMMARY. ON APRIL 16, NCNA CLAIMED THAT CHINA'S GROSS INDUSTRIAL OUTPUT (GVIO) IN THE FIRST QUARTER OF 1978 REPRESENTED "AN ALL TIME HIGH" AND SHOWED "A BIG INCREASE" OVER THE SAME PERIOD A YEAR EARLIER. THE REPORT GENERALLY IMPLIES THAT CHINA'S INDUSTRY IS PERFORMING AT OR CLOSE TO THE PLANNED LEVELS FOR THE FIRST QUARTER OF 1978. THE CLAIMS DO NOT APPEAR UNREASONABLE BUT THEY SHOULD BE TEMPERED BY THE KNOWLEDGE THAT THE REPORT MAKES COMPARISONS TO QUARTERS WHICH ARE BELIEVED TO HAVE BEEN UNSATISFACTORY. IN PARTICULAR IT APPEARS THAT ENERGY SUPPLIES ARE KEEPING UP WITH REQUIREMENTS AND, AT THIS POINT, DO NOT APPEAR TO REPRESENT A THREAT TO THE ATTAINMENT OF PLANNED GOALS. THE OTHER BRIGHT SPOT APPEARS TO BE THE METALLURGICAL SECTOR -- A SECTOR WHICH HAS RECEIVED A GREAT DEAL OF EMPHASIS DURING THE QUARTER. HOWEVER, THE LACK OF AN OVERALL, QUANTITATIVE GVIO CLAIM, SOFT SPOTS THAT CAN BE

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DETECTED BY CROSS COMPARISONS WITH OTHER DATA AND PEKING'S OWN RATHER VAGUE AND MODEST CLAIM THAT THE RESULTS WERE "AMONG THE BEST ACHIEVED SINCE THE FOUNDING OF NEW CHINA" SUGGESTS THAT 1978 IS OFF TO A PRESENTABLE BUT NOT ENTIRELY SATISFACTORY START. END SUMMARY.

2. ON APRIL 16, NCNA CLAIMED A "RECORD HIGH" FOR CHINA'S FIRST QUARTER GVIO AND THAT OUTPUT "SHOWED A BIG INCREASE" OVER THE SAME PERIOD OF THE PRECEDING YEAR AND "WAS HIGHER" THAN THE FOURTH QUARTER OF 1977. THE LACK OF SPECIFIC QUANTITATIVE COMPARISON WITH THE FIRST OR THE LAST QUARTER OF 1977 OBSCURES BOTH THE PROBLEMS IN THOSE TWO QUARTERS AND THE REAL PROGRESS OF CHINA'S INDUSTRY. THE NCNA REPORT CLAIMED INCREASES OF 25 PERCENT FOR SHANGHAI AND OVER 30 PERCENT FOR SZECHWAN, YUNNAN, HONAN, CHEKIANG AND KIANGSI BUT ADMITTED THAT THESE PROVINCES HAD BEEN "SEVERELY RAVAGED BY THE GANG OF FOUR." A FINAL SIGN THAT THE FIRST QUARTER PROGRESS WAS ADEQUATE BUT NOT SPECTACULAR IS THE NCNA CLAIM THAT HALF OF THE 80 MAJOR INDUSTRIAL PRODUCTS SURPASSED 25 PERCENT OF 1978 PRODUCTION QUOTAS IN THE FIRST QUARTER. THIS, OF COURSE, ALSO MEANS THAT 50 PERCENT DID NOT.

4. BRIGHT SECTORS DURING THE FIRST QUARTER OF 1978 INCLUDE OIL, COAL, CHEMICAL FERTILIZER, NON-FERROUS METALS AND, TO A LESSER EXTENT, ELECTRIC POWER. PETROLEUM PRODUCTION HAS GROWN STEADILY SINCE JANUARY AND HAS REGISTERED A 10.3 PERCENT INCREASE OVER THE FIRST QUARTER OF 1977, ITSELF A RESPECTABLE PERIOD. UNLIKE LAST YEAR WHEN OIL REQUIREMENTS DROPPED, A 10 PERCENT OR MORE INCREASE WILL PROBABLY BE REQUIRED

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THIS YEAR AND PERFORMANCE THUS FAR APPEARS ON TARGET. COAL PRODUCTION AND NATURAL GAS IN THE FIRST QUARTER WERE UP 26.8 AND 15.1 PERCENT RESPECTIVELY OVER THE FIRST QUARTER OF 1977. THE METALLURGICAL INDUSTRY WAS SINGLED OUT FOR PARTICULAR PRAISE STATING THAT IT WAS NOT ONLY "NO LONGER STAGNANT OR RETROGRESSIVE" BUT HAD "MADE A FLYING START THIS YEAR." IN JANUARY THE AVERAGE DAILY OUTPUT OF MAJOR MINES WAS UP 7 PERCENT OVER THAT IN THE FOURTH QUARTER OF 1977 (NCNA JANUARY 31). COMPARISONS WITH THE DEPRESSED FIRST QUARTER OF LAST YEAR ARE SOMEWHAT DECEPTIVE, BUT NATIONAL OUTPUT APPEARS TO BE KEEPING PACE WITH REQUIREMENTS. THIS MAY BE INFERRED BOTH FROM THE ABSENCE OF REPORTS OF COAL SHORTAGES AND FROM THE CLAIM THAT IN FEBRUARY TOTAL PRODUCTION WAS 5.1 PERCENT OVER THE FIGURE CALLED FOR IN THE NEW PLAN (NCNA MARCH 8).

5. THE DEPTHS OF THE DEPRESSION IN THE STEEL INDUSTRY EARLY LAST YEAR HAS ENABLED THE PRC MEDIA TO ANNOUNCE FAIRLY HIGH PERCENTAGE CLAIMS THIS QUARTER, UT A CAREFUL READING OF THESE CLAIMS

INDICATES SOME SLIPPAGE FROM AVERAGE DAILY OUTPUT RATES ATTAINED IN OCTOBER AND NOVEMBER OF LAST YEAR. IT WAS CLAIMED THAT IN FEBRUARY DAILY IRON AND STEEL OUTPUT WAS UP 125 PERCENT AND 150 PERCENT, RESPECTIVELY, OVER FEBRUARY 1977 (NCNA MARCH 8). FOR THE QUARTER, INCREASES OF ONLY 28 AND 20 PERCENT FOR IRON AND STEEL, RESPECTIVELY, WERE CLAIMED. COMPARING THIS WITH THE CLAIM THAT IN OCTOBER AND

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NOVEMBER 1977 DAILY OUTPUT AVERAGES WERE NEARLY DOUBLE THOSE OF THE FIRST THREE MONTHS OF THE YEAR (NCNA DECEMBER 26), IT IS CLEAR THAT PRODUCTION RATES DECLINED CONSIDERABLY IN THE FIRST QUARTER OF 1978. ALTHOUGH RECENT VISITORS TO WUHAN AND TAIYUAN STEEL COMPANIES HAVE OBSERVED THAT THESE APPEARED TO BE OPERATING AT BELOW CAPACITY DURING THE FIRST QUARTER, THE PRC MEDIA HAS CLAIMED RECORD OUTPUTS FOR THEM. ANSHAN IS CONSPICUOUSLY ABSENT FROM MEDIA REPORTS AND THE PROBLEM MAY BE CENTERED THERE.

6. ELECTRICITY OUTPUT ROSE BY 22.9 PERCENT, BUT THE CLAIMS ARE SOMEWHAT DECEPTIVE BECAUSE LAST YEAR'S DROUGHT CURTAILED THE OPERATION OF SOME HYDRO-ELECTRIC PLANTS, WHICH CONSTITUTES 38 PERCENT OF TOTAL CAPACITY. THERMAL PLANTS GENERATED 8.5 PERCENT MORE ELECTRICITY THAN IN THE FOURTH QUARTER OF 1977, A VERY RESPECTABLE INCREASE THAT

BROUGHT THIS SUB-SECTOR (CONSTITUTING 62 PERCENT OF TOTAL CAPACITY) TO AN ALL-TIME HIGH OUTPUT. THIS INCREASE REFLECTED THE COMMISSIONING OF NEW PLANTS
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IN WUHAN AND ELSEWHERE. DESPITE THIS APPARENT LEAP IN OUTPUT, THE MEDIA CLAIMED ONLY THAT 11 OF 12 MAJOR GRIDS REGISTERED "FAIRLY BIG INCREASES" IN OUTPUT OVER THE FIRST QUARTER OF 1977.

7. RAILWAY TRANSPORT PERFORMANCE WAS UNIMPRESSIVE IN THE QUARTER. NCNA CLAIMED THAT "WENTY RAILWAY (BUREAUS) SHARPLY RAISED FREIGHT TRANSPORT TARGETS COMPARED TO THE FIRST QUARTER OF LAST YEAR" AND THAT "FREIGHT, LOADING AND UNLOADING TARGETS TOPPED LAST YEAR'S FOURTH QUARTER LEVELS." IN THE QUARTER "RAILWAY WORKERS SET AN ALL-TIME RECORD." NONE OF THESE CLAIMS, NOR THE CLAIM THAT IN THE FIRST QUARTER FREIGHT VOLUME INCREASED 30.2 PERCENT OVER JANUARY-FEBRUARY 1977 (NCNA MARCH 8), ARE VERY IMPRESSIVE, AS THE PERIODS WITH WHICH RECENT PERFORMANCE IS COMPARED WERE PARTICULARLY BAD FOR THE RAILWAYS. THE MEDIA SINGLED OUT THE KUNMING, CHENG TU, KWANGCHOW, PEKING, SHANGHAI AND CHENGCHOW BUREAUS FOR SPECIAL MENTION. CONTINUING THE PATTERN OF LAST YEAR, THE NATIONAL MEDIA FAILED TO MENTION BY NAME ANY OF THE BUREAUS IN THE NORTHEAST, INCLUDING SHENYEANG, THE BUSIEST BUREAU OF ALL, SUGGESTING CONTINUING PROBLEMS IN THIS REGION.

8. CHEMICAL FERTILIZER PRODUCTION INCREASED BY MORE THAN 50 PERCENT OVER THE FIRST QUARTER OF 1977, INDICATING THE GREAT PRODUCTIVITY OF THE LARGE IMPORTED PLANTS THAT FINALLY BEGAN TO OPERATE SMOOTHLY IN THE THIRD QUARTER OF 1977. THE FIRST QUARTER JUMP DID NOT REFLECT PRODUCTION FROM THE THREE FRENCH AMMONIA-UREA PLANTS (IN NANKING, ANCHING AND KWANGCHOW), WHICH THE FRENCH EMBASSY SAYS ARE NOT
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YET OPERATIONAL, OR THE LAST THREE KELLOGG PLANTS.

9. NCNA CLAIMED THAT OUTPUT OF 15 OF THE 16 MAJOR PRODUCTS IN THE TEXTILES AND LIGHT INDUSTRIES WAS AT LEAST 16 PERCENT HIGHER THAN FOR THE SAME 1977 PERIOD. INCREASES OF FROM 30 TO 80 PERCENT WERE

CLAIMED FOR PAPER, BICYCLES, SEWING MACHINES AND SOME OTHER PRODUCTS. THE ABSENCE OF A PERCENTAGE INCREASE CLAIM OVER LAST YEAR OR OVER THE PRECEDING QUARTER SUGGESTS THAT GROWTH WAS MODEST. IN THE TEXTILE INDUSTRY THE MAJOR ADVANCE WAS IN CHEMICAL FIBER PRODUCTION WHICH INCREASED 270 PERCENT OVER FIRST QUARTER 1977, REFLECTING ADDITIONS OF NEW CAPACITY. CLAIMS THAT TOTAL TEXTILE OUTPUT WAS UP 40 PERCENT AND COTTON GOODS 33 PERCENT ARE LESS IMPRESSIVE CONSIDERING THAT THE INDUSTRY WAS SOMEWHAT DEPRESSED IN EARLY 1977.

10. IN SUM, FIRST QUARTER INDUSTRIAL PERFORMANCE HAS PROBABLY PROVIDED SOME MOMENTUM FOR CONTINUED GROWTH DURING THE REST OF THE YEAR. IN PARTICULAR, IT APPEARS THAT ENERGY SUPPLIES ARE KEEPING AHEAD OF REQUIREMENTS AND THUS WILL NOT BECOME A DRAG ON OVERALL PRODUCTION. THERE ARE SOFT SPOTS, HOWEVER, AND THE FACT THAT THE PRC HAS NOT MADE A SPECIFIC OVERALL PERCENTAGE GVIO CLAIM FOR THE QUARTER MAY INDICATE SOME DISSATISFACTION WITH THE RESULTS.
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